



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden	
hours per response.....	12.00

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

SEC FILE NUMBER
8- 49023

FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Pacific Cornerstone Capital, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
1920 Main Street, Suite 400
(No. and Street)
Irvine, California 92614
(City) (State) (Zip Code)

OFFICIAL USE ONLY
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Terry Roussel 949-852-1007
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*
Joseph Yafeh, CPA
(Name - If individual, state last, first, middle name)

11300 West Olympic Blvd., Suite 875 Los Angeles, CA 90064
(Address) (City) (State) (Zip Code)

CHECK ONE:
☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED
MAR 24 2008
THOMSON
FINANCIAL

SEC
Mail Processing
Section
FEB 29 2008
Washington, DC
101

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

ANNUAL AUDIT REPORT

DATE - DECEMBER 31, 2007

PACIFIC CORNERSTONE CAPITAL, INC.
1920 MAIN STREET, SUITE 400
IRVINE, CALIFORNIA 92614

CONTENTS

PART I

Report of Independent Auditor	1
Statement of Financial Condition	2
Statement of Income (Loss)	3
Statement of Changes in Stockholders' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-7

SUPPLEMENTAL INFORMATION

Computation of Net Capital Pursuant to rule 15c3-1 of the Securities and Exchange Commission	8
Schedule of Operating Expenses	9 - 10

PART II

Independent Auditor's Report on Internal Accounting Control Required by Sec Rule 17a-5	11 - 12
---	---------

Joseph Yafeh CPA, Inc.
A Professional Accounting Corporation
11300 W. Olympic Blvd., Suite 875
Los Angeles CA 90064
310-477-8150 ~ Fax 310-477-8152

REPORT OF INDEPENDENT AUDITOR

Board of Directors
Pacific Cornerstone Capital, Inc.
Irvine, California

I have audited the accompanying statement of financial condition of Pacific Cornerstone Capital, Inc., (the Company) as of December 31, 2007 and related statements of income (loss), changes in stockholders' equity and cash flows, and for the year then ended. These financial statements are being filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 and include the supplemental schedule of the net capital computation required by rule 15c3-1. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, such financial statements referred to above present fairly, in all material respects, the financial condition of the Company as of December 31, 2007 and the results of its operations, stockholders' equity and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Joseph Yafeh, CPA

Los Angeles, California
February 19, 2008

PACIFIC CORNERSTONE CAPITAL, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2007

ASSETS

Cash	\$226,139
Concession Receivable – CLFA and CCP REIT	420
Due from CVI	100,000
Prepaid expense	<u>71,200</u>
 Total assets	 <u>\$397,759</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:

Accounts payable	\$ 25,929
Accrued liabilities	47,960
Concession payable – CCP REIT	285
Commission payable – CVI	<u>20,429</u>
 Total liabilities	 <u>94,603</u>

Stockholders' equity:

Common stock, no par value per share; authorized 100,000 shares; issued and outstanding 1,429 shares	\$ 82,935
Notes receivable	(40,170)
Preferred stock – A – 1,200,000 shares	1,352,318
Preferred stock – B – 1 share	248,975
Retained (deficit)	<u>(1,340,902)</u>

Total stockholders' equity	<u>303,156</u>
----------------------------	----------------

Total liabilities and stockholders' equity	<u>\$397,759</u>
--	------------------

The accompanying notes are an integral part of these financial statements.

PACIFIC CORNERSTONE CAPITAL, INC.
STATEMENT OF INCOME (LOSS)
YEAR ENDED DECEMBER 31, 2007

Revenues:

Commission Revenue	\$4,863,450
Interest	<u>1,867</u>
Total revenues	4,865,317

Expenses:

Operating Costs – Page 10	4,777,314
Expense Sharing Agreement	<u>230,000</u>
	<u>5,007,314</u>

Net (loss) before taxes (141,997)

State income taxes 800

Net (loss) \$ (142,797)

The accompanying notes are an integral part of these financial statements.

PACIFIC CORNERSTONE CAPITAL, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2007

	<u>Common Stock</u>	<u>Notes Receivable Shareholder</u>	<u>Series A Preferred Stock</u>	<u>Series B Preferred Stock</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at December 31, 2006	\$160,253	\$ (40,170)	\$ 1,275,000	\$248,975	\$(1,198,105)	\$ 445,953
Change of ownership interest *	(77,318)		(1,275,000)			(1,352,318)
Change of ownership Interest			1,352,318			1,352,318
Net (loss) for the year ended December 31, 2007					<u>(142,797)</u>	<u>(142,797)</u>
Balance at December 31, 2007	<u>\$ 82,935</u>	<u>(40,170)</u>	<u>\$1,352,318</u>	<u>\$248,975</u>	<u>\$(1,340,902)</u>	<u>\$ 303,156</u>

*Mr. Terry Roussel, President transferred his ownership interest in common stock and preferred stock Series A to Cornerstone Ventures, Inc., a related company.

The accompanying notes are an integral part of these financial statements.

PACIFIC CORNERSTONE CAPITAL, INC.
STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

Cash flows from operating activities:	
Net (loss)	\$(142,797)
Adjustments to reconcile net income to net cash used from operating activities:	
Concessions receivable – CLFA and CCP REIT	66,117
Accounts receivable	4,668
Prepaid expense	(56,200)
Due from, CVI	(100,000)
Accounts payable	(14,810)
Due to, CCP REIT	(14,872)
Concession payable – CRF/CCP REIT	(37,148)
Commission payable – CVI	(12,315)
Accrued liabilities	<u>(34,611)</u>
	<u>(199,171)</u>
Net cash flows used by Operating Activities	<u>(341,968)</u>
Cash flows from investing activities:	--
Cash flows from financing activities:	--
Net decrease in cash	(341,968)
Cash at beginning of period	<u>568,107</u>
Cash at end of year	<u>\$ 226,139</u>

SUPPLEMENTAL CASH INFORMATION

Cash payments for:	
Income taxes	<u>\$ 800</u>
Interest expense	<u>\$ --</u>

The accompanying notes are an integral part of these financial statements.

PACIFIC CORNERSTONE CAPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is a registered broker-dealer incorporated under the laws of the State of California maintaining its office in Irvine, California, and is subject to a minimum net capital requirement of \$5,000 under Securities and Exchange Commission (SEC) Rule 15c3-1. The Company operates pursuant to the (k)(2)(i) exemptive provision of SEC Rule 15c3-3 and does not hold customer funds or securities. The Company's business consists of the wholesale of direct participation programs. (DPP)

The Company's income during 2007 was all with related parties.

Expense Sharing Agreement

In June 2004, the Company entered into an agreement with an affiliate wherein the affiliate agrees to pay certain of the Company's expenses in consideration for exclusive marketing and sales consideration.

Under the terms of the agreement, the affiliate will pay 100% of the rent, telephone and other occupancy costs of the Company. In addition, the affiliate will pay 100% of the salaries, expenses and benefits for the shared employees (other than commissions from broker/dealer transactions) for the exclusive marketing activities from the Company. Pursuant to SEC Rules 15c3-1, 17a-3, 17a-4, and 17a-5, the Company maintains a separate schedule of these expenses on a monthly basis. During 2006 the Company paid \$230,000 toward the above common occupancy and shared employees' expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company files its income tax returns on the cash basis of accounting. Deferred income taxes result primarily from the use of the cash method for tax purposes whereas the accrual method is used for accounting purposes. As of December 31, 2007, the Company had a net operating loss carry forward of approximately \$1,300,000 which has been fully reserved.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2007.

PACIFIC CORNERSTONE CAPITAL, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 – INCOME TAXES

Deferred taxes are accounted for under Financial Accounting Standard 109 (FAS 109), which uses an asset and liability approach in recognizing timing differences. This approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities.

NOTE 3 – RELATED PARTY TRANSACTIONS

The Company received all its fees for selling Direct Participation Programs from related companies. Also, see Note 1 “Expense Sharing Agreement”.

NOTE 4 – NET CAPITAL

The Company is subject to a minimum capital requirement that is the greater of \$5,000 or 6 2/3% of aggregate indebtedness, \$94,603 at December 31, 2007, under SEC Rule 15c3-1, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. Net capital and the related net capital ratio fluctuate on a daily basis; however, as of December 31, 2007, the net capital was \$131,536, which exceeded the required minimum capital by \$125,230. The aggregate indebtedness to net capital ratio was 72%. See page 8.

NOTE 5 – COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company is occasionally named as a defendant in various legal matters. Presently, the Company is involved along with affiliated companies in litigations. To date, no resolution is known.

NOTE 6 - EXEMPTION FROM THE SEC RULE 15C3-3

Pacific Cornerstone Capital, Inc. is an introducing broker-dealer that clears all transactions with and for customers on a fully disclosed basis with an independent securities clearing company and promptly transmits all customer funds and securities to the clearing company, which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of the SEC Rule 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

Therefore, Pacific Cornerstone Capital, Inc. is exempt from provisions under the SEC Rule 15c3-3, Customer Protection – Reserves and Custody of Security under Rule 15c3-3 paragraph (K) (2) (i).

In addition, the Company is exempt from the Possession or Control Requirements under Rule 15c3-3 paragraph (K) (2) (i).

PACIFIC CORNERSTONE CAPITAL, INC.
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1

DECEMBER 31, 2007

Total equity from statement of financial condition	\$ 303,156
Less non-allowable assets:	
Concession Receivable – CLFA and CCP REIT	(420)
Due from CVI	(100,000)
Prepaid Expense	<u>(71,200)</u>
Total non-allowable assets	<u>(171,620)</u>
Net capital	<u>\$ 131,536</u>

COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

Minimum net capital required (6 2/3% of aggregate indebtedness of \$208,359)	<u>\$ 6,306</u>
Minimum dollar net capital required	<u>\$ 5,000</u>
Net capital required (greater of above two figures)	<u>\$ 6,306</u>
Excess net capital	<u>\$ 125,230</u>

COMPUTATION OF RATIO OF AGGREGATE INDEBTEDNESS TO NET CAPITAL

Total liabilities (aggregate indebtedness)	<u>\$ 94,603</u>
Ratio of aggregate indebtedness to net capital	<u>72%</u>
Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1(d)	<u>N/A</u>

The following is a reconciliation as of December 31, 2007 of the above net capital computation with the Company's corresponding unaudited computation pursuant to Rule 179-5(d) (4):

Unaudited	\$ 131,536
Retained earnings	<u>0</u>
Audited	<u>\$ 131,536</u>

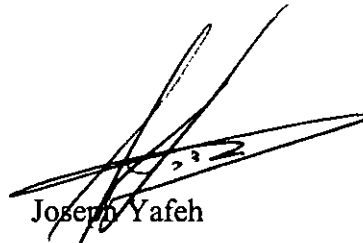
The accompanying notes are an integral part of these financial statements.

Joseph Yafeh CPA, Inc.
A Professional Accounting Corporation
11300 W. Olympic Blvd., Suite 875
Los Angeles CA 90064
310-477-8150 ~ Fax 310-477-8152

**INDEPENDENT AUDITOR'S REPORT
ON THE SCHEDULE OF OPERATING EXPENSES**

Board of Directors
Pacific Cornerstone Capital, Inc.
Irvine, California

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached schedule of operating expenses for the year ended December 31, 2007 is presented for purposes of additional information and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements as a whole.



Joseph Yafeh

Los Angeles, California
February 19, 2008

PACIFIC CORNERSTONE CAPITAL, INC.
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2007

Audit Expense	\$ 10,052
Business Licenses & Permits	1,300
CCP REIT Concessions	2,960,863
CCP REIT Marketing Expense	33,545
CCP REIT Training & Education	326,632
CIP Leveraged Concessions	352,853
CIP Leveraged Education & Training	1,373
CIP Leveraged Marketing Expense	7,350
CPEF Concessions	59,850
Commissions	90,616
Dues & Subscriptions	11,502
Education & Training	7,262
Entertainment & Meals	7,033
Incentive Bonus	5,037
Insurance Expense	1,347
Marketing Expense	35,486
Office Expense	155
Postage & Delivery	36,514
Professional Services	145,823
Regulatory Filing Fees	99,494
Sponsorship Fees	551,280
Travel Expenses	30,466
Miscellaneous Expenses	<u>1,481</u>
Total	<u>\$4,777,314</u>

See Accompanying Notes to Financial Statements

PART II

PACIFIC CORNERSTONE CAPITAL, INC.

STATEMENT OF INTERNAL CONTROL

DECEMBER 31, 2007

Joseph Yafeh CPA, Inc.
A Professional Accounting Corporation
11300 W. Olympic Blvd., Suite 875
Los Angeles CA 90064
310-477-8150 ~ Fax 310-477-8152

**Report of Independent Auditor
on Internal Accounting Control Required by SEC Rule 17a-5**

Board of Directors
Pacific Cornerstone Capital, Inc.
Irvine, California

In planning and performing my audit of the financial statements of Pacific Cornerstone Capital, Inc. (the "Company") for the year ended December 31, 2007, I considered its internal control, including control activities for safeguarding securities, in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), I have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that I considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3 (a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, I did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide

Board of Directors
Pacific Cornerstone Capital, Inc.
Irvine, California

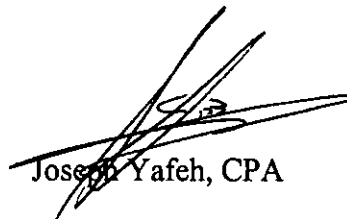
management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

My consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, I noted no matters involving internal control, including control activities for safeguarding securities, which I consider to be material weaknesses as defined above.

I understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on my study, I believe that the Company's practices and procedures were adequate at December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Members, management, the SEC, FINRA, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.



Joseph Yafeh, CPA

Los Angeles, California
February 19, 2008

END